

Original sponsors: Shultz, Buncen
and Liska

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 CS FOR HOUSE BILL NO. 310 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 THIRTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to payment for purchases by the
7 state; and providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 * Section 1. AS 37.05 is amended by adding a new section to read:

10 Sec. 37.05.275. PAYMENT FOR STATE PURCHASES. (a) Payment for
11 purchases of goods or services provided a state agency must be made on
12 a required payment date that is

13 (1) the date on which payment is due under the terms of a
14 contract; or

15 (2) 30 days after receipt of a proper invoice for the
16 amount of the payment due, if a specific date on which payment is due
17 is not established by contract and if the invoice contains or is
18 accompanied by documents required by the contract or purchase order.

19 (b) If a seller offers a discount from the amount otherwise due
20 for property or services in exchange for payment within a specified
21 period of time, the state agency may make payment in an amount equal
22 to the discounted price only if payment is made within the specified
23 period of time.

24 (c) If payment for goods or services purchased by the state is
25 not made within 30 days of a required payment date under (a)(1) of
26 this section or on the required payment date specified in (a)(2) of
27 this section, the state shall pay interest on the unpaid balance from
28 the date of receipt of the invoice for the goods or services at the
29 rate of one and one-half percent a month unless an agreement exists

1 between the seller and the state that precludes the charging of
2 interest.

3 (d) This section does not apply

4 (1) if the cost of the goods or services purchased exceeds
5 \$500,000; or

6 (2) to payment for any specific goods or services in dis-
7 pute after a seller of goods or services receives notice from the
8 state official responsible for authorizing payment for goods and
9 services that the amount of the invoice or quality of specific goods
10 or services is in dispute and stating the reasons for the dispute.

11 (e) Interest paid under (c) of this section shall be charged to
12 the budget of the state agency which purchased the goods or services.

13 (f) In this section

14 (1) "dispute" means a determination by the state official
15 responsible for authorizing the payments for the purchase of goods or
16 services that the performance or price charged is not in compliance
17 with the terms of the contract or purchase order;

18 (2) payment is considered made on the date when the payment
19 is personally delivered to the seller or agent of the seller or on the
20 date the payment is mailed;

21 * Sec. 2. This Act does not apply to contracts entered into before the
22 effective date of this Act.

23 * Sec. 3. This Act takes effect July 1, 1983.

THE LEGISLATURE OF THE STATE OF ALASKA
THIRTEENTH LEGISLATURE

FISCAL NOTE

I. REQUEST
 Bill/Resolution No. CSHB 210 (finance)
 Title Relating to payment for purchases by the state
 Requested by House Finance Committee Date 5/26/83

II. FISCAL DETAIL
 Agency Affected all
 Program Category Affected all
 BRU, Program, Or Subprogram(s) Affected _____
 (Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 83	FY 84	FY 85	FY 86	FY 87	FY 88
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL		0				

FUNDING (Thousands of Dollars)

GENERAL FUND		0				
FEDERAL FUNDS		0				
OTHER (Specify Source)		0				

POSITIONS 0

FULL TIME		0				
PART TIME		0				
TEMPORARY		0				

III. ANALYSIS (See Fiscal Note Preparation Instruction, Section III)

IV. DATE 5/18/83 PREPARED BY Al Adams, Chairman
 AGENCY House Finance Committee

Original: Legislative Finance PHONE 465-3706
 cc: Budget and Management

Prime Sponsor (First Legislator Named)

STATE OF ALASKA
FISCAL NOTE

Revision Date: May 26, 1983

I. REQUEST

Bill/Resolution No.: CSHB210(FIN)am
Title: Relating to Payment of Interest
Sponsor: Duncan/Shultz by State
Requestor: House Finance Committee

II. FISCAL DETAIL

Agency Affected: All
Program Category Affected: All
BRU, Program of Subprogram(s) Affected:

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 83	FY 84	FY 85	FY 86	FY 87	FY 88
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC	0	1,125.0	1,125.0	1,125.0	1,125.0	1,125.0
TOTAL OPERATING	0	1,125.0	1,125.0	1,125.0	1,125.0	1,125.0
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	1,125.0	1,125.0	1,125.0	1,125.0	1,125.0
FEDERAL FUNDS						
OTHER (Specify Source)						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

III. SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

IV. ANALYSIS: Attach a separate page for any Analysis

Prepared By: Kenneth E. Bischoff Director
Division: Finance

Phone: 465-2240
Date: 5/26/83

Approved by Commissioner: Lisa Rudd
Department: ADMINISTRATION

Date: 5/26/83

Distribution:

Original to Legislative Finance
Copy to Office of Management and Budget (for Legislature introduced bills)
Copy to Department (for Governor introduced bills)
Copy to Sponsor
Copy to Requestor (if different from Sponsor)

3/26/83

IV. ANALYSIS:

Differences between CS for HB-210(SA) and CS for HB-210(FIN) am (May 17, 1983)

1. The Finance version section 1(c) changes the date for determining when payment of interest should begin from the required payment date to the date invoice for the goods or services is received.
2. Sections 1(d)(2) of the finance version require notification by the official responsible for authorizing payment rather than the officer responsible for administering the contract when payment for goods and services is in dispute.
3. Section 1(f)(1) was changed to be consistent with the change in 1(d)(2) and made more generally applicable by adding purchase order.
4. Section 1(f)(3) was changed to narrow the scope and specifically include the legislative and judicial branches.

This does not appear to have a significantly different fiscal impact from the analysis done versus the previous bill version CSHB210 (State Affairs). That analysis dated May 15, 1983 is attached. There are some potential administrative impacts as follows:

- a. The change to section 1(c) requiring interest be paid based upon date of invoice receipt may be challengeable by vendors who receive no interest for the same time frame. If a vendor is paid on the 29th day after receipt of invoice, no interest will be paid to that vendor. If a vendor is paid on the 31st day after receipt of invoice that vendor will be entitled to 31 days interest. Twenty-nine days of the two examples overlap. Why should one vendor be paid and the other vendor not paid? The prior version would have given all subject vendors equal treatment.
- b. Is the term Purchase Order singularly applicable to the State purchase order form or should it be defined broadly to all purchase type documents?

IV. ANALYSIS:

Differences between Orig. HB-210 and CS for HB-210 (May 2, 1983)

1. The CS removes the stipulation that a discount must be taken when discount is at least 2% and payment is made within 10 days of receipt of goods, services or invoice, whichever is later, and substitutes, may take discount if made within the specified period of time until payment is due.
2. The CS excludes the legislative agencies and the Court System from subjectivity of this bill.
3. The CS specifies that the interest will be paid out of the paying agencies budget. The original bill specifies that the State will pay interest.
4. The substitute provides for a daily interest calculation after 30 days where the original bill specifies a monthly calculation. For example, if paid in 45 days under original bill the state would owe 2% interest, under CS state would owe approximately 3% interest.
5. The original bill specifies that interest will be paid if payment is not made within 30 days of receipt of goods and invoice, but the substitute requires payment by contract due date or within 30 days of receipt of invoice (excludes receipt of goods which may be after receipt of invoice).

This does not appear to have a significantly different impact from the analysis done versus the previous bill version HB205/210. That analysis dated March 17, 1983 is attached.

IV. ANALYSIS

The Department of Administration is opposed to this Legislation, not because we disagree with the idea of the State paying its bill in a timely manner, but because we feel there are better ways to address this problem. In determining the fiscal impact on mandatory payment of interest, it is impossible to place a definite dollar amount for the cost. Many items must be taken into consideration.

First, in order to calculate what the interest cost would be, a detailed analysis would be necessary to determine what the dollar amount of bills paid in excess of 30 days might be. Readily available information does not exist. However, to show what the potential impact might be, we offer this example, making a number of assumptions.

On the assumption that the State annual budget is \$3.0 billion and that 50% of that budget represents vendor payments effected by this legislation. Further we assume that 5% of the vendor payments might be subject to penalty as defined in the Legislation. Based on these assumptions, the interest penalty could be as high as \$1,125,000.00.

Calculated as follows:

\$3,000,000,000.00	Annual Budget
X 50%	

\$1,500,000,000.00	Potential Vendor Payments
X 5%	

\$ 75,000,000.00	5% Subject to Penalty
X 0.15%	

<u>\$ 1,125,000.00</u>	Interest Penalty for Bills Paid in Excess of 30 Days.

The preferable way to avoid penalty payments is to pay vendors within the 30 day period. This is and always has been the goal of the Department of Administration. The only effective way of doing this is either to divert current staff of the various State agencies to the effort of paying bills timely or to develop the agencies internal procedures and the Department of Administration's automated systems in order to address the payment problem. The cost to the State in providing additional staff or a bill paying effort that would pay all bills within 30 days using the current system has not be determined. The Department of Administration is currently in the process of

Fiscal Note: HB 205/210

March 17, 1983

redesigning the statewide accounting system which will include features that will improve the bill paying and tracking capabilities of the State.

While we recognize the problem of paying vendors in a timely manner is a serious matter, we should point out that for the most part, vendors are paid timely. For a 12 month period, the State paid on the average of 70,200 invoices a month. During that time, the average payment time was 29 days. The high monthly average was 33 days while the low monthly average was 24 days. During this period, only two months exceeded 30 days payment time.

In addition to the costs of attempting to improve the payment time and the potential interest penalties, we should also consider the cost of increased bureaucracy that would be involved in determining what payments would be subject to penalty, what period of time would be covered, as well as the logistics of making the interest payments, all of these would be costs to the State in time and effort.

Lastly, it should be noted that the funding of the interest payments would need to be 100% State funds. We have been advised by the U.S. Office of Management and Budget that the Prompt Payment Act (P.L. 970177) prohibits the use of Federal grant funds for the agencies that are primarily federally funded. (Copy of OMB letter attached)

Again, we are not opposed to timely payment of vendor bills but are concerned with the method of achieving that goal.



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

December 14, 1982

MEMORANDUM

SUBJECT: Payment Practices

It has come to our attention that several States have laws, or are considering legislation, that requires the payment of interest penalties to contractors when bills are paid late.

This is to alert you to the fact that the Prompt Payment Act (P.L. 97-177) prohibits the use of Federal grant funds for the payment of such interest penalties. The act says

"(A) in no case shall an obligation to pay such interest penalties be construed to be an obligation of the United States, and

"(B) any payment of such interest penalties shall not be made from funds provided to the grant recipient by a Federal agency, nor shall any non-Federal funds expended for such interest penalties be counted toward any matching requirement applicable to that grant."

We would appreciate your alerting your staff to this prohibition to assure that the Federal Government is not charged improperly for interest penalty costs.

John J. Lordan
Deputy Associate Director
for Financial Management

The following individuals are expected to testify on CS
HB 210 (State Affairs):

Rep. Dick Shultz, prime sponsor

A representative of the Department of Administration
may testify

THE LEGISLATURE OF THE STATE OF ALASKA
THIRTEENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. CSHB 210 (finance)

Title Relating to payment for purchases by the state

Requested by House Finance Committee Date 5/26/83

II. FISCAL DETAIL

Agency Affected all

Program Category Affected all

BRU, Program, Or Subprogram(s) Affected _____

(Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 83	FY 84	FY 85	FY 86	FY 87	FY 88
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL		0				

FUNDING (Thousands of Dollars)

GENERAL FUND		0				
FEDERAL FUNDS		0				
OTHER (Specify Source)		0				
POSITIONS		0				

FULL TIME		0				
PART TIME		0				
TEMPORARY		0				

III. ANALYSIS (See Fiscal Note Preparation Instruction, Section III)

IV. DATE 5/16/83

PREPARED BY Al Adams, Chairman

AGENCY House Finance Committee

Original: Legislative Finance

PHONE 465-3706

cc: Budget and Management

Prime Sponsor (First Legislator Named)

33-001 (Rev. 12/82)

STATE OF ALASKA
PRELIMINARY STATEMENT OF FISCAL IMPACT

A13 2/15

Bill No: HB 210 Date on Bill: 2-17-83
 Title: "An Act relating to payment for purchases by the state;..."
 Sponsor: Schultz
 Requestor: _____

1. Estimated fiscal impacts on:

a. Expenditures:

(Thousands of Dollars)

	FY 83	FY 84	FY 85	FY 86
Capital				
Operating		188.2	197.7	207.5
Total		188.2	197.7	207.5

b. Revenues:

Revenue							
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2. Source of funds to offset fiscal impact of bill:

Unable to estimate potential recovery from discounts taken, but offset is unlikely to approach cost.

3. Assumptions:

Currently there is no method within the system to identify invoices that have not been paid within 30 days from receipt. The department average payment time from the date of invoice to date of payment is less than 30 days. However, we can assume there are invoices that are not processed within 30 days of receipt. The interest payments that may be required should be nominal. Additional staff would be required to investigate each inquiry, make a determination as to whether interest is due, calculate the interest due and process the payment. The designated employee in each region should be at the Accounting Technician I or higher level of responsibility. One additional employee (Accounting Clerk III R/10B) would be required in each region to identify potential discount purchases and prepare payment documents for priority processing. It is unlikely that sufficient benefit would accrue from this practice to offset its cost. Document preparation, transit time to Juneau, key punching and necessary edits combine to make a ten day payment unlikely in the best of circumstances.

4. Disclaimer:

This statement has not been reviewed by the OMB in the Office of the Governor. It therefore does not represent the final estimate of fiscal impact.

Prepared By: Jim Slocum Phone: 465-3911
 Division: Financial Management Date: 3-4-83

Approved by Commissioner: Donna Page for Gov. B. Lind Date: 3-7-83
 Department: Transportation & Public Facilities

5. Distribution:

- Original to Legislative Finance
- Copy to OMB
- Copy to Sponsor
- Copy to Requester

STATE OF ALASKA
FISCAL NOTE

Revision Date _____, 1983

I. REQUEST

Bill/Resolution No.: HB-205/210
 Title: Relating to Payment of Interest
 Sponsor: Duncan/Shultz by State
 Requestor: House State Affairs

II. FISCAL DETAIL

Agency Affected: All
 Program Category Affected: All
 BRU, Program of Subprogram(s) Affected: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 83	FY 84	FY 85	FY 86	FY 87	FY 88
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC	0	1,125.0	1,125.0	1,125.0	1,125.0	1,125.0
TOTAL OPERATING	0	1,125.0	1,125.0	1,125.0	1,125.0	1,125.0
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	1,125.0	1,125.0	1,125.0	1,125.0	1,125.0
FEDERAL FUNDS						
OTHER (Specify Source)						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

III. SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

No source identified by the Legislature.

IV. ANALYSIS: Attach a separate page for any Analysis

Prepared By: Tom Haas, Acting Director
 Division: Finance

Phone: 465-2240
 Date: 3/17/83

Approved by Commissioner: Lisa Rudd
 Department: Administration

Date: 3/17/83

Distribution:

Original to Legislative Finance
 Copy to Office of Management and Budget (for Legislature introduced bills)
 Copy to Department (for Governor introduced bills)
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IV. ANALYSIS

The Department of Administration is opposed to this Legislation, not because we disagree with the idea of the State paying its bill in a timely manner, but because we feel there are better ways to address this problem. In determining the fiscal impact on mandatory payment of interest, it is impossible to place a definite dollar amount for the cost. Many items must be taken into consideration.

First, in order to calculate what the interest cost would be, a detailed analysis would be necessary to determine what the dollar amount of bills paid in excess of 30 days might be. Readily available information does not exist. However, to show what the potential impact might be, we offer this example, making a number of assumptions.

On the assumption that the State annual budget is \$3.0 billion and that 50% of that budget represents vendor payments effected by this legislation. Further we assume that 5% of the vendor payments might be subject to penalty as defined in the Legislation. Based on these assumptions, the interest penalty could be as high as \$1,125,000.00.

Calculated as follows:

<u>\$3,000,000,000.00</u>	Annual Budget
X 50%	
<u>\$1,500,000,000.00</u>	Potential Vendor Payments
X 5%	
<u>\$ 75,000,000.00</u>	5% Subject to Penalty
X 0.15%	
<u><u>\$ 1,125,000.00</u></u>	Interest Penalty for Bills Paid in Excess of 30 Days.

The preferable way to avoid penalty payments is to pay vendors within the 30 day period. This is and always has been the goal of the Department of Administration. The only effective way of doing this is either to divert current staff of the various State agencies to the effort of paying bills timely or to develop the agencies internal procedures and the Department of Administration's automated systems in order to address the payment problem. The cost to the State in providing additional staff or a bill paying effort that would pay all bills within 30 days using the current system has not be determined. The Department of Administration is currently in the process of

March 17, 1983

redesigning the statewide accounting system which will include features that will improve the bill paying and tracking capabilities of the State.

While we recognize the problem of paying vendors in a timely manner is a serious matter, we should point out that for the most part, vendors are paid timely. For a 12 month period, the State paid on the average of 70,200 invoices a month. During that time, the average payment time was 29 days. The high monthly average was 33 days while the low monthly average was 24 days. During this period, only two months exceeded 30 days payment time.

In addition to the costs of attempting to improve the payment time and the potential interest penalties, we should also consider the cost of increased bureaucracy that would be involved in determining what payments would be subject to penalty, what period of time would be covered, as well as the logistics of making the interest payments, all of these would be costs to the State in time and effort.

Lastly, it should be noted that the funding of the interest payments would need to be 100% State funds. We have been advised by the U.S. Office of Management and Budget that the Prompt Payment Act (P.L. 970177) prohibits the use of Federal grant funds for the agencies that are primarily federally funded. (Copy of OMB letter attached)

Again, we are not opposed to timely payment of vendor bills but are concerned with the method of achieving that goal.

Rec'd 5/17/83

STATE OF ALASKA
FISCAL NOTE

Revision Date: May 16, 1983

I. REQUEST

Bill/Resolution No.: CSHB210(SA)
Title: Relating to Payment of Interest
Sponsor: Duncan/Shultz by State
Requestor: House State Affairs

II. FISCAL DETAIL

Agency Affected: All
Program Category Affected: All
BRU, Program of Subprogram(s) Affected:

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 83	FY 84	FY 85	FY 86	FY 87	FY 88
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC	0	1,125.0	1,125.0	1,125.0	1,125.0	1,125.0
TOTAL OPERATING	0	1,125.0	1,125.0	1,125.0	1,125.0	1,125.0
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	1,125.0	1,125.0	1,125.0	1,125.0	1,125.0
FEDERAL FUNDS						
OTHER (Specify Source)						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

III. SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

IV. ANALYSIS: Attach a separate page for any Analysis

A. Stahl

Prepared By: Kenneth E. Bischoff, Director
Division: Finance

Phone: 465-2240
Date: 5/15/83

Approved by Commissioner: Lisa Rudd
Department: ADMINISTRATION

Date: 5/15/83

Distribution:

- Original to Legislative Finance
- Copy to Office of Management and Budget (for Legislature introduced bills)
- Copy to Department (for Governor introduced bills)
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3/8/83

IV. ANALYSIS:

Differences between Orig. HB-210 and CS for HB-210 (May 2, 1983)

1. The CS removes the stipulation that a discount must be taken when discount is at least 2% and payment is made within 10 days of receipt of goods, services or invoice, whichever is later, and substitutes, may take discount if made within the specified period of time until payment is due.
2. The CS excludes the legislative agencies and the Court System from subjectivity of this bill.
3. The CS specifies that the interest will be paid out of the paying agencies budget. The original bill specifies that the State will pay interest.
4. The substitute provides for a daily interest calculation after 30 days where the original bill specifies a monthly calculation. For example, if paid in 45 days under original bill the state would owe 2% interest, under CS state would owe approximately 3% interest.
5. The original bill specifies that interest will be paid if payment is not made within 30 days of receipt of goods and invoice, but the substitute requires payment by contract due date or within 30 days of receipt of invoice (excludes receipt of goods which may be after receipt of invoice).

This does not appear to have a significantly different impact from the analysis done versus the previous bill version HB205/210. That analysis dated March 17, 1983 is attached.

Fiscal Note: HB 205/210

March 17, 1983

IV. ANALYSIS

The Department of Administration is opposed to this Legislation, not because we disagree with the idea of the State paying its bill in a timely manner, but because we feel there are better ways to address this problem. In determining the fiscal impact on mandatory payment of interest, it is impossible to place a definite dollar amount for the cost. Many items must be taken into consideration.

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Calculated as follows:

\$3,000,000,000.00	Annual Budget
X 50%	
<hr/>	
\$1,500,000,000.00	Potential Vendor Payments
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<hr/>	
\$ 75,000,000.00	5% Subject to Penalty
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<hr/>	
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Fiscal Note: HB 205/210

March 17, 1983

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Lastly, it should be noted that the funding of the interest payments would need to be 100% State funds. We have been advised by the U.S. Office of Management and Budget that the Prompt Payment Act (P.L. 970177) prohibits the use of Federal grant funds for the agencies that are primarily federally funded. (Copy of OMB letter attached)

Again, we are not opposed to timely payment of vendor bills but are concerned with the method of achieving that goal.



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

December 14, 1982

MEMORANDUM

SUBJECT: Payment Practices

It has come to our attention that several States have laws, or are considering legislation, that requires the payment of interest penalties to contractors when bills are paid late.

This is to alert you to the fact that the Prompt Payment Act (P.L. 97-177) prohibits the use of Federal grant funds for the payment of such interest penalties. The act says

"(A) in no case shall an obligation to pay such interest penalties be construed to be an obligation of the United States, and

"(B) any payment of such interest penalties shall not be made from funds provided to the grant recipient by a Federal agency, nor shall any non-Federal funds expended for such interest penalties be counted toward any matching requirement applicable to that grant."

We would appreciate your alerting your staff to this prohibition to assure that the Federal Government is not charged improperly for interest penalty costs.

John J. Lordan
Deputy Associate Director
for Financial Management

RECEIVED
NOV 17 1982

CS
BACKGROUND ON SSB 210

This bill has been requested by numerous vendors that do business with the State of Alaska. The State has become notorious for late payment of invoices, forcing many private vendors to borrow money to supplement their cash flow. This reduces their profit, and in some cases even eliminates it as the profit on articles is very marginal.

The bill is patterned after a federal law entitled "The Prompt Payment Act - Public Law 97-177." The Prompt Payment Act became effective October 1, 1982 and when it was introduced in Congress, it carried 133 sponsors.

Mr. Leonard Lemon, Comptroller of the U.S. Army, ^{at Fort Greely} advised that the Prompt Payment Act has improved their payment scheduling and the payment of their accounts payable has become prompt and very routine. The U.S. Army has incorporated it in their Army Regulations.

The State has put an amount of more than \$1.2 million annual cost on its fiscal note, which should be a good indication of how much money is involved in overdue accounts. The agencies further claim that they will have to reorganize their payment system in order to fulfill the requirements of this bill. If this is so, then it should be done. This should be an indication that their method of paying accounts payable is presently inefficient and needs modifying.

The bill is needed in Alaska and will be a great help to the average small businessman that does business with state government.

ANALYSIS OF SSHB 210

"An Act relating to payment for purchase by the State; and providing for an effective date."

Section 1 (a) requires the agency to pay on a required payment date as defined under terms of a contract or 30 days after receipt of proper invoice.

Subsection (b) provides for the State to take advantage of any discounts offered by a vendor and if invoice is paid in time, the State agency will deduct the amount of the discount offered from the total amount of the invoice.

Subsection (c) establishes the rate of interest at 1.5% per month that must be paid by the State for a past due balance - also provides for the exclusion of interest in the event that the seller and the State have a mutual agreement.

Subsection (d) 1. exempts purchases of more than \$500,000 from the provisions of the bill.

Subsection (d) 2. provides for an exception in the event the State notifies the vendor or seller of a dispute in the invoice.

Subsection (e) provides that any interest incurred by lack of prompt payment will be charged to the budget of the department involved.

Subsection (f) 1. defines "dispute" as noncompliance, in performance or price, with the terms of the contract, as determined by administering State officer.

Subsection (f) 2. defines when payment is made.

Subsection (f) 3. defines a state agency

Section 2. Exempts any contracts entered into before the effective date from this Act's provisions.

Section 3. Provides an effective date of July 1, 1983.

Introduced: 2/17/83
Referred: State Affairs
and Finance

1 IN THE HOUSE

BY SHULTZ

2

HOUSE BILL NO. 210

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

THIRTEENTH LEGISLATURE - FIRST SESSION

5

A BILL

6 For an Act entitled: "An Act relating to payment for purchases by the

7

state; and providing for an effective date."

8

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9

* Section 1. AS 37.05 is amended by adding a new section to read:

10

Sec. 37.05.275. PAYMENT FOR STATE PURCHASES. (a) Payment for

11

purchases of goods or services provided the state must be made within

12

30 days after the goods or services have been provided or an invoice

13

received. If a seller of goods or services provided to the state

14

offers a discount of at least two percent if payment in full is made

15

within 10 days of the receipt of the goods, services, or invoice,

16

whichever is later, the state agency responsible for payment of the

17

bill shall make payment so as to take advantage of the discount.

18

(b) If payment for goods or services purchased by the state is

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not made within 30 days of receipt of the goods or services and re-

20

ceipt of an invoice for the purchase, the state shall pay interest on

21

the unpaid balance at the rate of one and one-half percent a month

22

unless an agreement exists between the seller and the state that

23

precludes the charging of interest.

24

(c) This section does not apply

25

(1) if the cost of the goods or services purchased exceeds

26

\$500,000; or

27

(2) after a seller of goods or services receives notice

28

that the amount of the invoice or quality of the goods or services is

29

in dispute, including the reasons for the dispute, from the state

1 officer responsible for administering the contract.

2 (d) For purposes of this section "dispute" means a determination
3 by the state officer responsible for administering a contract for the
4 purchase of goods or services that the performance is not in compli-
5 ance with the terms of the contract.

6 * Sec. 3. This Act does not apply to contracts entered into before its
7 effective date.

8 * Sec. 4. This Act takes effect July 1, 1983.

Offered: 5/2/83
Referred: Finance

Original sponsors: Shultz, Duncan
and Liska

1 IN THE HOUSE BY THE STATE AFFAIRS COMMITTEE
2 CS FOR HOUSE BILL NO. 210 (State Affairs)
3 IN THE LEGISLATURE OF THE STATE OF ALASKA
4 THIRTEENTH LEGISLATURE - FIRST SESSION
5 A BILL
6 For an Act entitled: "An Act relating to payment for purchases by the
7 state; and providing for an effective date."
8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:
9 * Section 1. AS 37.05 is amended by adding a new section to read:
10 Sec. 37.05.275. PAYMENT FOR STATE PURCHASES. (a) Payment for
11 purchases of goods or services provided a state agency must be made on
12 a required payment date that is
13 (1) the date on which payment is due under the terms of a
14 contract; or
15 (2) 30 days after receipt of a proper invoice for the
16 amount of the payment due, if a specific date on which payment is due
17 is not established by contract and if the invoice contains or is
18 accompanied by documents required by the contract or purchase order.
19 (b) If a seller offers a discount from the amount otherwise due
20 for property or services in exchange for payment within a specified
21 period of time, the state agency may make payment in an amount equal
22 to the discounted price only if payment is made within the specified
23 period of time.
24 (c) If payment for goods or services purchased by the state is
25 not made within 30 days of a required payment date under (a) of this
26 section, the state shall pay interest on the unpaid balance from the
27 required payment date at the rate of one and one-half percent a month
28 unless an agreement exists between the seller and the state that
29 precludes the charging of interest.

1 (d) This section does not apply
2 (1) if the cost of the goods or services purchased exceeds
3 \$500,000; or

4 (2) after a seller of goods or services receives notice
5 from the state officer responsible for administering the contract that
6 the amount of the invoice or quality of specific goods or services is
7 in dispute and stating the reasons for the dispute.

8 (e) Interest paid under (c) of this section shall be charged to
9 the budget of the state agency which purchased the goods or services.

10 (f) In this section

11 (1) "dispute" means a determination by the state officer
12 responsible for administering a contract for the purchase of goods or
13 services that the performance or price charged is not in compliance
14 with the terms of the contract;

15 (2) payment is considered made on the date when the payment
16 is personally delivered to the seller or agent of the seller or on the
17 date the payment is mailed;

18 (3) for purposes of this section, "state agency" is as
19 defined in AS 37.05.320 and includes an organization that was created
20 by law and that is primarily and directly funded by appropriations.

21 * Sec. 2. This Act does not apply to contracts entered into before the
22 effective date of this Act.

23 * Sec. 3. This Act takes effect July 1, 1983.